



# The Real Estate ANALYST

SAINT LOUIS EDITION

## BUSINESS RECOVERY IN BRIEF

THE rapid gains made in July were continued through August. It is true that foreclosures set a new high, but this is a result of the pressure of the past rather than an index of the present or future. In a number of cases, it is probable that holders of past due notes are trying to get possession of the property before the market improves.

We believe that the most significant factor of all is the rapid increase in the past four months in marriage licenses. Basically, delayed marriage is the same as the doubling up of families. The only difference is that in the doubling up of families we are dealing with units where marriage has already taken place, while delayed marriages keep individuals in the homes of their parents when they would otherwise have homes of their own. Because of this basic similarity we believe that an increase in the marriage rate is also accompanied by a corresponding change in doubling up of families. This will be measured in the next occupancy survey.

The tremendous effort to arouse a "war time enthusiasm in the war against depression" will undoubtedly have its effects if backed up by a sound program. We believe that in the main the program is sound. The weakest point seems to be the inability and even the inadvisability of stimulating the construction industry. Unless the building trades are speeded up, unemployment will continue high. If construction is hastened, the over supply of building will be increased. That problem is discussed elsewhere in this issue.



As there has been no great change in the value of the dollar since our last issue, and as the codes dealing with the building industry are not yet in effect, there has been no great change in building material costs during August.

Rentals of both apartments and single family dwellings steadily during the month. While this is encouraging, it has happened before and is not necessarily an indication that rentals are now headed upward

## THE MONTH'S CHANGES AT A GLANCE

The indicators at the bottom of the page will show at a glance the month's changes in conditions. The position of the arrow-head shows the movement during the month - up indicating improvement and down, decline.

ACTIVITY	FORECLOSURES	CONSTRUCTION	APART. RENT	OTHER RENT	MARRIAGES
JUNE JULY AUG.	↑ ↑ ↑	↑ ↑ ↑	↑ ↑ ↑	↑ ↑ ↑	↑ ↑ ↑



The chart above shows the drop in the gold value of the dollar since the United States officially suspended the gold standard on April 19.

As the dollar drops in its gold value, prices go up. As the dollar increases in its gold value, prices go down. That is the reason why prices were showing rapid increases until the middle of July and have since steadied off to the same extent that the value of the dollar has steadied.

#### THE NRA AND REAL ESTATE

**T**HIS issue of the Real Estate Analyst is written in Washington after a very careful study of the entire NRA set-up as it affects the various phases of the real estate business.

The NRA necessarily started without detailed policies but with the fundamental objective of increasing employment by shortening hours and increasing purchasing power by raising wages. Policies are developing gradually as the result of hearings, in which the reasonings of the various interested parties are represented. These hearings are attended by the following officials of the NRA: the deputy administrator, representing General Johnson; a representative of the Consumers' Advisory Board, representing in a general way the interests of the consuming public; a representative of the Labor Advisory Board, representing labor; a representative of the Industrial Advisory Board, representing industry; a representative of the Legal Division, to pass on the wording of the code; and a representative of the Division of Economic Research and Planning, to furnish all necessary basic information on the Industry together with a report on the probable economic results of the various provisions of the code.

Up to the present, only one code dealing directly with real estate construction has been approved and signed by the President. This is the code dealing with lumber and timber products. We believe that this code will increase the selling price of lumber by at least 20% in addition to the increases which will come from natural causes. The general construction code, together with nine sub-codes, will come up for the first hearing on September 6. A general code for real estate with five sub-codes has just been filed by the National Association of Real Estate Boards. The sub-codes cover Real Estate and Insurance Brokerage, Real Estate and Building Management, Real Estate Mortgage business, Land Development and Home Building, Real Estate Appraising. None of these codes has yet been scheduled for a hearing.

We anticipate some very interesting developments during the hearings on the construction codes. The problem of increasing employment and raising purchasing power among employees in the construction industry is far more complicated than it is in most of the industries considered so far.

All industries can be grouped roughly into two groups: those which produce articles which are quickly consumed in use, known as consumption goods; and those that produce products which last for many years, known as durable goods or more often as capital goods. Examples of consumption goods are such things as food products, clothing, shoes, etc. Buildings and machinery are probably the best examples of capital goods.

In every depression the production of consumption goods is affected far

less than the production of capital goods. We can contract our usual food requirements but little, and until nudism increases in general popularity, we still must dress; but in a period of severe depression we may stop building entirely. This has just about happened in the present depression. Since March, according to figures compiled by Col. Ayres, the recovery in general production in the United States has been the most rapid of all periods in our history. This recovery, however, has been almost entirely in the field of consumption goods. This is shown very strikingly by the comparative index numbers of the Federal Reserve Board for the month of July.

Manufacturing	99
Minerals	92
Construction (based on contracts awarded) - Total	22
Residential	13

This lack of balance existing between industrial production and the construction industry is one of the most serious threats in the present economic situation.

How does this affect the NRA program and the construction codes? If hours are reduced and wage rates raised in the construction industry, together with similar changes in the building material industries, it will necessarily raise the cost of building. It has raised costs in all other industries where the codes have been put in force. There is this difference, however, that an increase in the price of consumption goods stimulates business, because the speculator, the wholesaler and the dealer buy on a rising market, not for use but for re-sale at a profit; while an increase in the cost of construction without an equivalent rise in rentals decreases the net income which could be expected on the proposed building to the point where it no longer furnishes an incentive great enough to stimulate new building. In fact, at the present time, net incomes from improved real estate are so low that they could not pay a return on the lowest level of construction costs of a few months ago.

Our studies would lead us to believe that rentals will not rise rapidly until a large part of our present vacancy is absorbed. This will take some time. We are inclined to think that no great gain can be made this year. If we are right, an appreciable rise in the cost of new construction will stop all such private construction which might otherwise go forward. This will increase unemployment and will lower purchasing power - the exact opposite intended by the NRA codes.

If re-employment lags in the construction industry, it will endanger the entire recovery program. In pre-depression years, the value of new construction in the United States each year was approximately equal to the entire gross income of agriculture. Its collateral importance in other lines such as furnishing freight to railroads is very great.

The construction industry cannot be supported by public works financed by the federal government. The entire fund available for this purpose is only three billion dollars, or about one-third of the amount spent for construction in a single normal year. This three billion dollars will be spent during the next two years and will be totally insufficient to furnish work for the great mass of the unemployed in the building and building material industries.

Many of the officials of the NRA who will be involved in the hearings on the construction codes have a keen realization of these facts. Whether labor can be made to see the necessity for holding costs down in the capital goods industries is problematical. The forty odd codes we have read over so far on various phases of the construction and building supply fields have impressed us as suicidal if approved in their present form. We are afraid that labor will make an effort to raise rates still higher as these codes are carried into the hearings.

New building must be stimulated if we are to end the depression; but the problem which is worrying many people in Washington is how can building be stimulated when we have an excessive vacancy now and rentals so low that foreclosures have reached a point more than forty percent higher than they have ever gone before? To increase the amount of space on the market at this time will involve consequences almost as great as those we are trying to remedy.





#### A STUDY OF FORECLOSURES

**T**HE chart above shows the relationship of real estate activity, the cost of building materials, and foreclosures in Saint Louis and Saint Louis County from 1868 to the present. The solid black areas above the line represent real estate booms, the solid black areas below the line, real estate depressions. The heavy black line shows the foreclosure rate per hundred thousand families and the dotted line, the average cost of building materials.

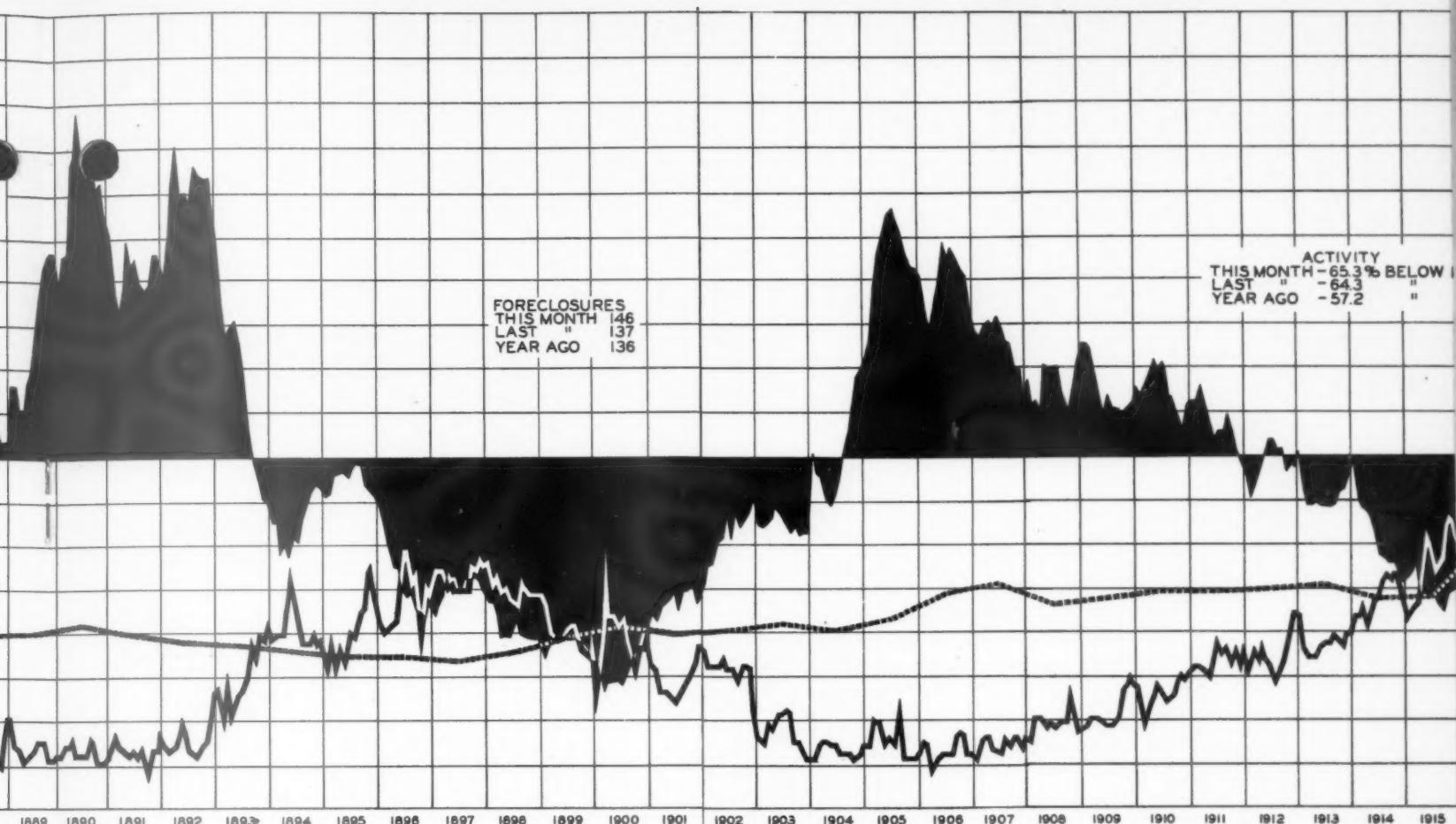
If the foreclosure line is followed across the chart, it will be noticed immediately that during the past sixty-five years there have been four periods when foreclosures have been high. As would be expected, these periods came during real estate depressions.

It is interesting to note that these heavy foreclosure periods have come in regular swells and that whenever foreclosures have gone above twenty-five per hundred thousand families for more than an isolated month after a period in which they had been running lower, it has formed a certain indication of from five to ten years of heavy foreclosures ahead. No real estate depression has come without warning. Had these figures been available in 1926 and 1927, the rise in the foreclosure rate with the drop in real estate activity would have immediately indicated serious trouble ahead.

In the issue of the Real Estate Analyst of April, 1932, the causes of foreclosures were analyzed. The analysis which follows is more complete, as during the past eighteen months much material has been accumulated which was not then available.

Of the many causes of foreclosures, the principal ones fall into the following general groups:

**I. INCREASE IN THE VALUE OF THE DOLLAR:** When we can buy more food for a dollar than we could four years ago, we generally describe the change by saying that food has dropped in price. If, however, we find that the same thing has happened simultaneously in the prices of clothing, automobiles and rents, we may begin to question the logic of our description. Price is the relationship between the value of any commodity and the value of money. When the price of a commodity changes it may be due to either an over supply or shortage of the commodity itself or it may be due to a change in the value of money.

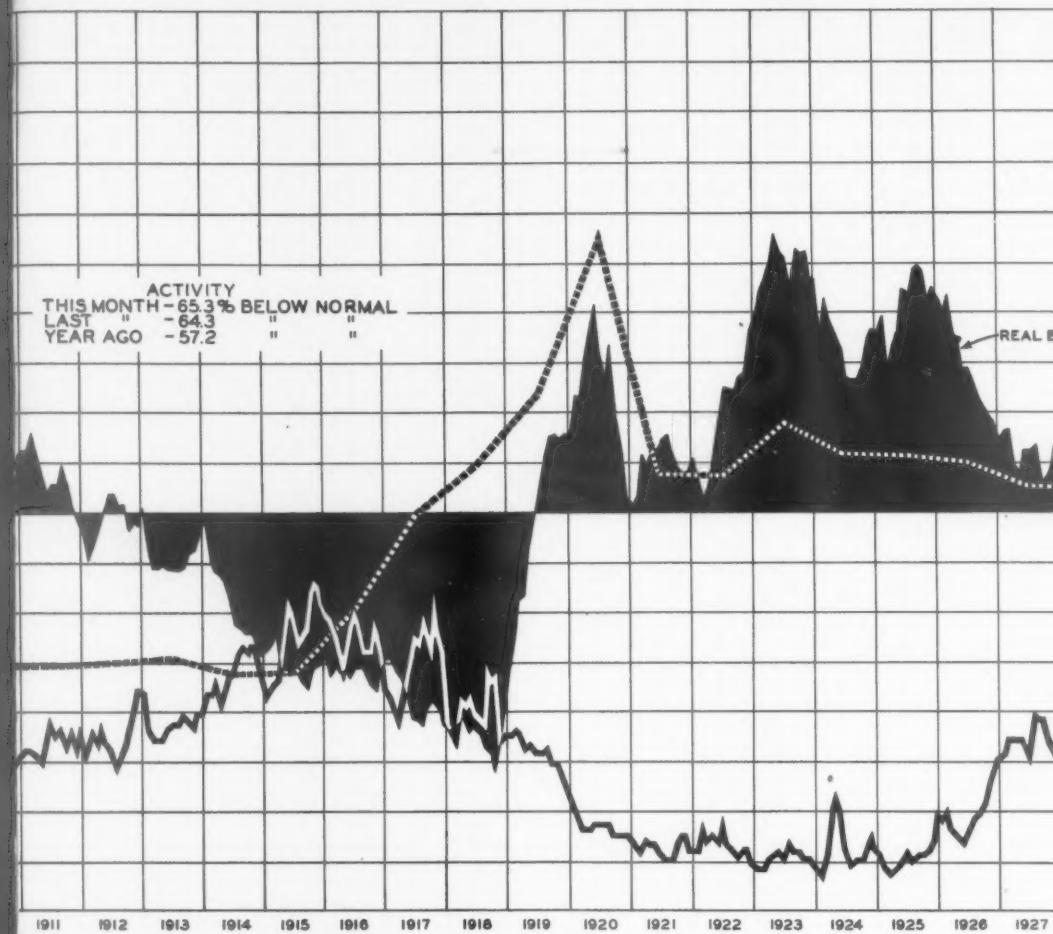


If most prices change in the same direction at the same time, there is always a strong suspicion that what has really happened is that the value of money, not commodities, has changed. If money changes in value, prices appear to change in the opposite direction. This is rather easy to understand today, as we have seen prices advance materially since we left the gold standard, due primarily to the fact that our money has declined in value on a gold basis. (See the chart on page 182, showing the drop in the gold equivalent of the dollar.) In the period prior to leaving the gold standard, our prices declined because gold was increasing in value and carrying our dollar along with it.

How does this affect foreclosures? Suppose one built a house in 1920. By referring to the dotted line on the chart above, it will be noticed that building materials were very much higher in 1920 than they have been at any time since. This was true not only of building materials but of all commodities, indicating that money had little value at that time. Twelve years later, money had become very valuable, forcing building material costs down to less than half the 1920 level. It would now be possible to build a new house for very much less than the house built twelve years before. Accordingly the house built in 1920 would have to decline in value to a point sufficiently below the cost of building it now to make it an attractive purchase in comparison with a new house.

However, had this house been built in 1920, any mortgage which might have been placed on it would have been relatively small on a percentage basis because prices had not been on a high level long enough for mortgage interests to consider cost a measure of value. Five years later this was not true. Long term indebtedness was becoming accustomed to this plateau of costs. Loans were being made for fifty percent of the value. As long as the dollar was fairly stable in purchasing power, with little change in construction costs, all went well. But when the dollar started up in value four years ago and construction costs started down, the percentage of indebtedness was increased from fifty percent to a percentage so high that in some cases the mortgage exceeded the new replacement cost of the property.

There have been only two periods during the past sixty-five years when construction costs dropped rapidly after having maintained higher levels for a long period of years. These two periods occur toward the beginning and at the end of the chart above, resulting in the high foreclosures of 1878 and the present. Even the most conservative loans cannot stand a price change in the magnitude of these periods.



there is always a change in value of money, to change in value we have seen to the fact on page 182, for to leave in value and

in 1920. By that building since. This cating that me very val- level. It house built to decline in e it an at-

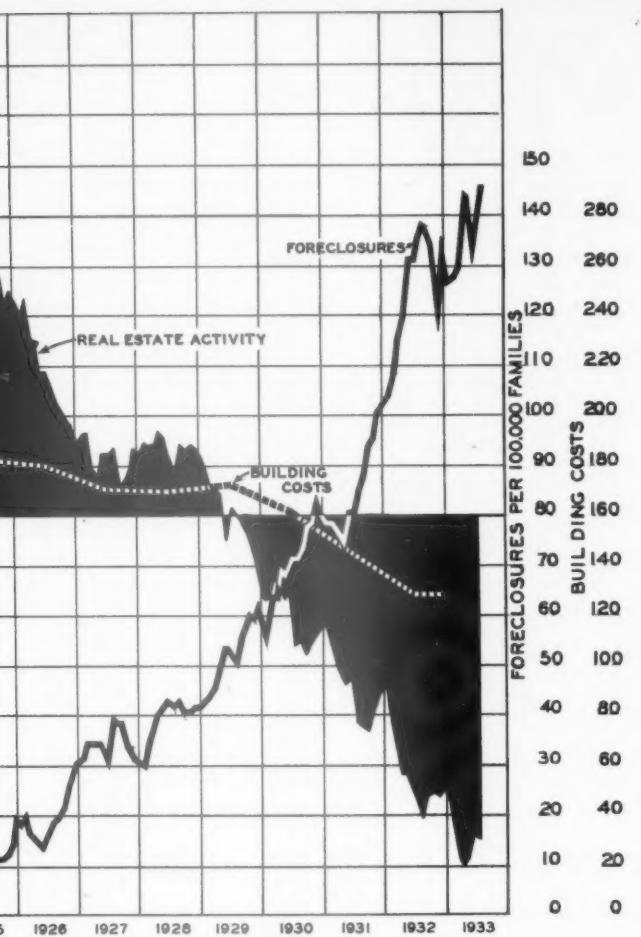
in might have basis because to consider form indebted- ing made for in purchasing on the dollar the percent- high that in y.

years when s for a long e end of the . Even the these periods.

II. OVER FINANCING: In any the situation is complicated or not b level, the ownership of real estate becomes high and values are figured by capital attract buyers. The multitude of buy takes some time to increase the supply rises and an orgy of speculation begins get that booms are periodic and short regard to average earning power of real institutions measure the success of the gularity of interest payments and the debt at maturity. A boom period in to lending institutions as well as to d are infrequent, lending organizations sound. They are thus tempted to greater

III. OVER BUILDING: Until made profitable by high values, catches parently goes well. Large investors fgin, with as large a mortgage as pos brings large profits on the amount investing the profits being made, invest their deavor to resell at a profit, but the this time is starting to pass the demand numerous, making serious inroads into tify the inflated prices for which prop for tenants lowers rentals still furth when real estate cannot be sold profitably different buyers and values start to faues the small margin-owned properties ship are foreclosed. Inflated values c equities in the over financed properti over more and more properties.

IV. FRIGIDITY: If real est period of depression an owner of severa some of his parcels to increase his eq



In any boom period, regardless of whether or not by the change in the general price state becomes quite profitable. Rentals are capitalizing boom rentals. High returns of buyers increases the demand, while it supply of buildings. Accordingly the price begins. Purchasers lose perspective, for short lived, and buy for resale without of real estate in a normal market. Lending of their investment policies by the and the ability of the mortgagor to pay off period in real estate brings over confidence as to developing builders. Because lossesizations assume that their policy has been to greater liberality in their loans.

Until the building of new property, now, catches up and passes the demand, all investors find that buying and selling on margin as possible on each piece of property, amount invested. People of smaller means, see invest their savings in small equities and en, but the supply of improved real estate by the demand and vacancies are becoming more loads into earnings already too small to justify which property has been selling. Competition still further and a stage is finally reached profitably. Properties are offered to in start to fall. At the first decrease in values and those in weak financial owner values continue to fall, buyers are scarce, properties melt away and foreclosures take

real estate were liquid at all times, in a of several pieces of real estate could sell his equity in the remainder. As condi- (continued on page 188)



## TO THE BROKER

THOSE of our subscribers who have carefully studied the material we have presented in these pages during the past eighteen months cannot now deny the existence of a cycle in real estate. They must recognize, as a real force, the potential demand that exists and will again absorb our vacancies and increase rents and values when purchasing power is restored. They cannot fail to realize that the value of money should be brought back to the level on which most of our debt was created. Inflation through the revaluation of the dollar in terms of gold has been discussed.

The inflationary power now vested in the President, we have stated, will undoubtedly be exercised. Prices have been rising in anticipation of the exercise of this power. Building costs have been increasing and will continue to increase.

The NRA program has as its first objective the spreading of employment and raising of wages to keep pace, as nearly as possible, with increasing prices. Although the path is strewn with many obstacles, employment is increasing and there is reason to believe that the definite policies of the administration will bring about desired results.

As the value of money decreases and as employment and earning power increase, the value of commodities and material things, including real estate, will increase.

The administration is now considering a plan for subsidizing the destruction of obsolete buildings to speed up the absorption of vacancies. As the details of this plan are worked out, our intimate relationship with this phase of the administration's policies will enable us to give a clear picture of the effect it will have on real estate.

We believe we have a period of real estate activity just ahead and will endeavor in the next issue of the Analyst to summarize by charts the factors, which are now arranging themselves in a very favorable manner, to be used in making a proper sales presentation. This is the time to buy real estate. The public generally will not act until later. With proper presentation of the facts, selling real estate now is easy. In addition, clients sold now will be permanent, loyal clients.

Many are using the Analyst to their financial advantage. Paul E. Stark of Madison, Wisconsin, wrote us as follows: "I have tried to find time to tell you that I thought the July number of your Analyst was one of the most helpful of the series from the standpoint of the Realtor. I have used, a great deal, the table showing the effect of inflation upon used houses. It helped me get four listings from one of our banks. Those in charge of the real estate department said it was the first time that anyone had given them tangible support for his recommendations".

Some have said they did not have time to read the Analyst. To those we now say, "The Analyst is a short cut". Through it, in a comparatively few hours, can be gained the experiences of many over a period of several generations. The other alternative to studying the Analyst, is to spend a lifetime securing the same information through trial and error.

Be prepared to serve your clients more intelligently during the coming period of activity. If there are any questions you want to ask that have not been covered, do not hesitate to wire, phone or write us.

Frequently, a subscriber has left a copy of the "Analyst" with a client or prospect and has not been able to get it back. We will be glad to send another copy of that issue upon request without charge. This service is intended to be practical. It should make you money. Tell us how to make it more helpful.

(continued from Page 186)

tions actually exist, when real estate activity subsides and property becomes frozen, one piece cannot be sacrificed to save another. An owner may have a substantial fortune wiped out through foreclosure because small equities in many properties cannot be consolidated to strengthen his position. The absence of liquidity in the last half of each real estate cycle is one of the outstanding causes of high foreclosure peaks.

V. ECONOMIC DISTRESS AND UNEMPLOYMENT: During a boom period many people buy property which they expect to pay for out of their earnings over a long period of time. It might be that the property is bought at a fair price and is not over financed. But if unemployment results from the depression and continues for a long enough period, first taxes become delinquent, then interest and eventually principal.

#### REAL ESTATE MORTGAGES AS INVESTMENTS IN THE FUTURE

New loans, made on real estate security appraised at its present replacement cost less accrued depreciation, are the safest investments these troubled times provide. If the loan is made on a fifty percent of actual value basis, within five years the increase in value which will come as we leave the depression farther and farther behind, should reduce the percentage of the loan until it would be closer to a third than a half.

Building costs have already advanced materially and will advance further under code provisions. Every advance in replacement cost increases the value of every useful building now standing. As rentals start up later, this increase in value will become more apparent. Equities which were practically wiped out by the drop in values during the depression will be restored on many of the better pieces of property.

If the program of the NRA is successful in restoring employment and purchasing power within a reasonable length of time, the foreclosure rate should drop. After the great depression of the seventies, foreclosures dropped very rapidly when building costs started back up in 1879. We see no reason why this should not happen again.

#### SEPTEMBER CUBIC COSTS

THE cubic costs shown on the opposite page are estimates based on the present very unstable price levels of both materials and labor. As soon as the final construction code, together with all of the supplementary codes covering the various branches of the industry, can be agreed upon by both the construction industry and the NRA, it will be possible to estimate the increase in building costs which will result. Costs on residential buildings will be higher - much higher if all of the provisions now in these codes are allowed to stay in them. We are sure that many of these provisions will be thrown out, but enough of them will stay to raise prices materially. This will reduce the amount of residential building which would otherwise take place in the next few years. From the standpoint of the real estate owner this is fine, as it will increase the rate of absorption of vacancies and cause rentals to rise. From the standpoint of solving the present unemployment problem, however, shortened hours and increased pay in the residential building field will increase costs to the point where the opportunity for furnishing employment will be greatly reduced. New building does not start until rentals and values have risen to the point apparently sufficient to pay a return on the current rates of construction. Rentals and values are far from that point today. An increase in the cost of construction widens the gap. It will be necessary to wait until an absorption of vacancy has raised rentals and values to close this gap. The higher construction costs go, the longer the wait will be.

The REAL ESTATE ANALYST is published monthly by REAL ESTATE ANALYSTS, INC., Saint Louis, a statistical, survey and appraisal organization. The subscription price is \$180 a year, payable semi-annually in advance. REAL ESTATE ANALYSTS, INC., is not engaged in financing, management or brokerage of real estate.

### CUBIC COSTS, SEPTEMBER, 1933

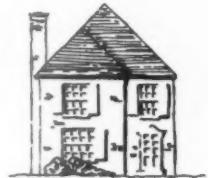
In the table below cubic costs are given for September, 1933. These costs will probably advance further as labor and material costs go up under NRA code provisions. The general construction code is scheduled for its first informal hearing on September 6.

#### MODERN BRICK BUNGALOW



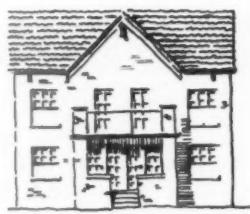
Bungalow, as shown and described in pages 122 and 123, exclusive of financing and sales commission....	<b>23.0¢</b>
With hot air heat subtract.....	0.9¢
Without vitrolite in kitchen subtract.....	0.4¢
With financing charges and sales commission add..	2.0¢

#### SINGLE FAMILY TWO-STORY RESIDENCE



Single family residence, described on pages 62 and 63, exclusive of financing and sales commission....	<b>22.9¢</b>
With copper guttering, spouting & flashing, add..	0.3¢
With variegated slate roofing, add.....	1.0¢
With hot water heat, add.....	0.9¢
Without tile walls in bath, subtract.....	0.4¢
Without shower & with cheap plumbing, subtract...	0.3¢
With ordinary millwork, subtract.....	0.5¢
With financing and sales commission, add.....	2.4¢

#### SPECULATIVE FOUR-FAMILY FLAT



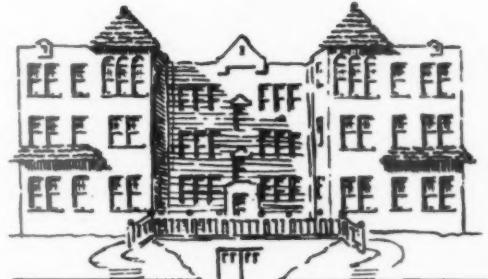
Speculative four-family flat, as shown and described on pages 72 and 73, excluding cost of financing and sales commission.....	<b>20.1¢</b>
With copper guttering, spouting & flashing, add..	0.1¢
With steam heat, add.....	0.5¢
With tile walls in baths, add.....	0.6¢
With showers in baths, add.....	0.2¢
With first class plumbing fixtures, add.....	0.6¢
With first grade roofing, add.....	0.1¢
With financing and sales commission, add.....	1.8¢

#### EIGHTEEN-FAMILY MASONRY APARTMENT

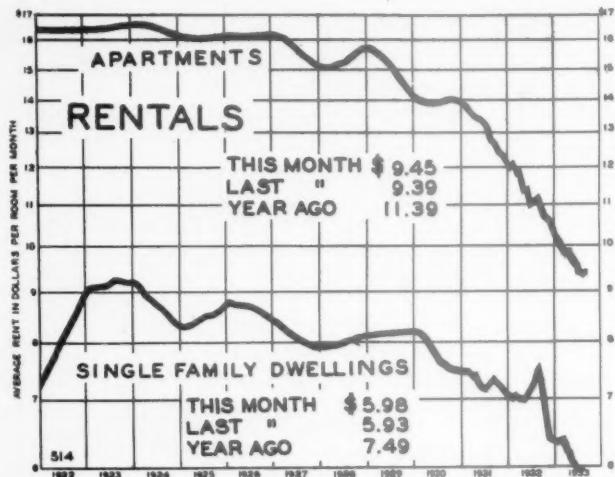


Eighteen-family masonry apartment, as described on pages 82 and 83, excluding cost of financing and sales commission.....	<b>29.9¢</b>
With electrical refrigeration, add.....	1.2¢
With gas stoves, add.....	0.3¢
With beds, add.....	0.1¢
With iron rear porches & steps, add....	1.2¢
With financing & sales commission, add.	2.6¢

#### THIRTY-FAMILY REINFORCED CONCRETE APARTMENT



Thirty-family reinforced concrete apartment, as shown and described on pages 92 and 93, excluding cost of financing and sales commis-sion.....	<b>35.8¢</b>
With electrical refrigeration, add.....	1.1¢
With gas stoves, add.....	0.2¢
With iron rear porches & steps, add....	1.2¢
With financing & sales commission, add.	3.0¢



#### APARTMENT RENTALS:

Rise during the month..... 0.6%  
Drop since the first of the year. 8.2%  
Drop in the last twelve months...15.9%  
Drop from the peak in 1922.....43.3%

#### SINGLE FAMILY RESIDENCE RENTALS:

Rise during the month..... 0.8%  
Drop since the first of the year. 6.4%  
Drop in the last twelve months...20.2%  
Drop from the peak in 1924.....35.0%



THE number of family accommodations provided for in all new building permits, adjusted for seasonal variation, shows a gain on the preceding month for the seventh consecutive time. While this gain is interesting from the standpoint of a change in the trend, new building is still proceeding at a negligible level. During the first eight months of this year, permits have been issued to accommodate 209 families. During the last boom more than twice this number were sometimes issued in a single week.



FOR the fourth consecutive month, the marriage rate in Saint Louis has been higher than a year ago. In these four months it has advanced over the low of last April by 25.6%. It is still extremely low - 45.7% below normal. The consistent rise, however, is an indication of greater confidence in stability of employment. We believe that the rise in the marriage rate will be accompanied by a spreading out of doubled up families. There were 466 marriages during the month in comparison with 517 marriages dissolved by either death or divorce.